

## **REPORT OF THE AUDITOR-GENERAL TO KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE UMZUMBE MUNICIPALITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Introduction**

1. I have audited the accompanying financial statements of the Umzumbe Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to ....

#### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)(MFMA), the Division of Revenue Act of South Africa, 2009 (Act No.12 of 2009) (DORA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of the Republic of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice No. 1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of Umzumbe municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and requirements of the MFMA and DORA.

**Emphasis of matter**

8. I draw attention to the matter below. My opinion is not modified in respect of these matters:

**Irregular expenditure**

9. As disclosed in note 22 to the financial statements, the Municipality incurred irregular expenditure of R1,225 million as the expenditure incurred was in contravention of the Municipal Supply Chain Management Regulations of 30 May 2005 (MSCMR).

**Additional matters**

10. I draw attention to the matters below. My opinion is not modified in respect of these matters:

**Material inconsistencies in other information included in the annual report**

11. I have not obtained the other information included in the annual report for my review and have not been able to identify any material inconsistencies with the financial statements

**Unaudited supplementary schedules**

12. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

13. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

**Predetermined objectives****Presentation of information**

14. The reported performance against predetermined objectives was deficient in respect of the following criteria:
  - Performance against predetermined objectives was not reported using the National Treasury guidelines.

The following audit findings relate to the above criteria:

**The approved and reported performance indicators did not include general KPI's**

15. Approved and reported performance indicators did not include the general key performance indicators as required by the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000)(MSA).

## **Compliance with laws and regulations**

### **Expenditure management**

16. As required by section 62(1)(d) of the MFMA, the accounting officer did not take reasonable steps to prevent irregular expenditure.
17. As required by section 65(2)(e) of the MFMA, payments due to creditors were not always settled within 30 days from receipt of an invoice.
18. As required by section 38(c) of the Municipal Supply Chain Management Regulations, a contract was awarded to the service provider who is prohibited as per the national treasury website.
19. As required by section 44(a) of the Municipal Supply Chain Management Regulations, awards were made to persons who are in the service of the state.

## **INTERNAL CONTROL**

20. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

21. The accounting officer did not exercise oversight responsibility over procurement of goods and services to ensure that they complied with the requirements of MSCMR.
22. The municipal council did not exercise oversight over the preparation of the Service Delivery Implementation Plan (SDBIP) to ensure that all the general KPI's are included to SDBIP.

### **Financial and performance management**

23. The accounting officer did not ensure that the municipality has and maintain an approved policy for performance management system.

Pietermaritzburg

30 November 2011



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